



City of Seattle
Office of City Auditor

SEATTLE PUBLIC UTILITIES NEW TAPS SERVICES INTERNAL CONTROLS REVIEW AND FRAUD RISK AUDIT

City Auditor: David Jones
Auditor in Charge: Marc Stepper
December 3, 2013



- Requested by Seattle City Councilmember Jean Godden.
- In response to the theft of over \$1 million of customer payments from SPU's water main extension and new taps services.
- We published a separate audit of water main extensions in September 2012.

Lack of Duty Segregation

The Project Manager:

- Calculated project charges
- Generated the customer invoice/ payment receipt
- Collected customer payments (most paid in advance)
- Initiated the customer service order
- Managed the project and maintained ongoing customer interface
- Performed duties without management oversight





Water service pipes that connect the customer's site to the water main.

- Residential, Commercial, Government

3 types of taps; variety of sizes for:

- Water
- Fire Suppression
- Irrigation

- **2012 – 640 taps; \$7 million revenue.**

Utilities Services Group

Utility Services Team Division

- *Customer point of contact*
- *Complete necessary documents*
- *Payment handling / processing*
- *Tracking orders to completion*



Planning & Support Division

Creates Work Orders; Estimates Costs



Water Distribution & Transmission Operations

Schedules and Performs the Field Work

Project Management & Engineering Div.

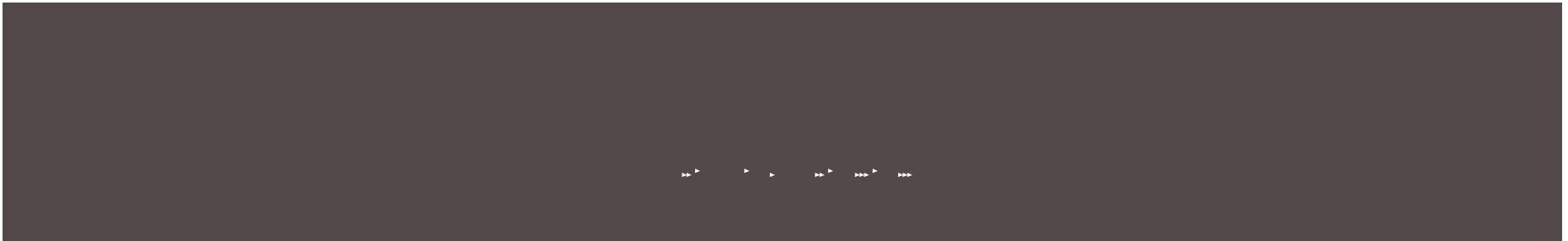
*Major Interagency Government Projects,
including Taps Work*

Project Support Division

*Private Contract Water Mains, Including New
Taps Work*

Drinking Water Division

*Provide Water and Drainage to Other Water
Districts, Including Taps*



The purpose of our work was to determine:

- (1) Whether all customer payments for new taps work were received and deposited.**
- (2) Whether current internal controls in the new taps process are adequate to help deter fraud in the future.**

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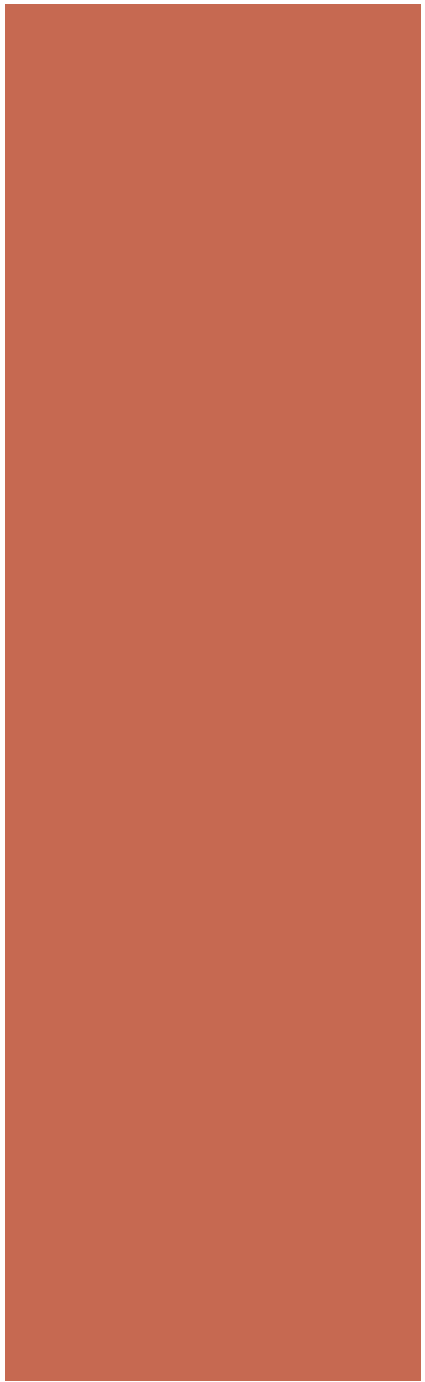
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Payments Testing

- Service orders created from 2007 – 2011
- All account executives
- All customer types
- All new taps types and sizes
- Prepaid, on account, inter-departmental
- Canceled service orders



Review of Current Controls

- Policies and procedures
- Staff and management interviews at USG and other SPU Divisions
- Previously conducted audits/reviews
- Segregation of duties analysis



Conclusion:

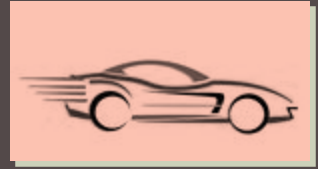
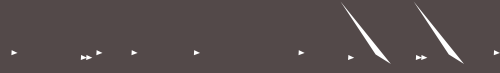
In general, current internal controls used by USG in new taps work are adequate to help ensure that customer payments for new taps work are received, recorded and deposited.

Recommended Changes:

We made five recommendations to further improve the effectiveness of SPU's controls.



- 1. Define the USG New Taps Process in Sufficient Detail and Segregate Backup Functions**
- 2. Strengthen Controls for New Taps Work Initiated Outside of USG**
- 3. Strengthen Controls Over Creation of the New Taps Service and Work Orders**
- 4. Restrict User Access to New Taps Database Applications**
- 5. Strengthen Controls Over the New Taps Tracking Spreadsheet**



- SPU will implement interim measures in response to our audit recommendations. The Office of City Auditor will follow-up.
- SPU is undergoing an extensive re-design of all processes associated with developer projects, including new taps. Expected to be implemented in early 2014.
- As a result of the re-design, interim measures may have to be adapted to the new processes.

***We appreciated SPU's support
and cooperation.***

Questions?